Teachers' Pension Plan Board
Conseil du régime de retraite des enseignantes et des enseignants
Ontario

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EXCHANGE

A NEWSLETTER FOR MEMBERS OF THE ONTARIO TEACHERS' PENSION PLAN

Your Pension and the Social Contract

How will the social contract affect my pension benefits? Do I need to purchase credit for unpaid days off? Teachers have asked these and other questions about the social contract. Here are the answers to the most often asked questions.

Q: *Will the social contract hurt my pension?*
A: The short answer is no. The OTF and the Ontario government, who are responsible for the plan's design, have agreed that the funds being used from the pension plan will not compromise the pension you're entitled to receive (for a more detailed answer, please see *The Big Picture*, p. 4).

Q: *Will unpaid days affect my pension?*
A: In those instances where you're required to take unpaid days off, your pension will continue to be calculated using your full-year's salary. This means unpaid days will not affect your pension.

Q: *Do I need to buy credit for unpaid days off?*
A: To make it easier for you, your employer will automatically deduct your pension contribution for any unpaid days off—on an annual salary of $50,000, this is about $22 per day. By contributing for those days, you'll get full credit for the year.

Q: *I'm eligible to retire soon. How will the social contract affect my pension?*
A: The average of your best-five year's salary is one of the factors used to determine your annual pension. Because teachers typically earn their highest salary just before retirement, the three-year salary freeze will probably affect your pension. Once you're on pension, you will receive increases that match the Consumer Price Index (CPI)—1.9% this year, 2.1% last year.

Q: *Can I expect my contribution rate to increase?*
A: The impact of the social contract on your pension plan will not cause the contribution rate to increase.

It's worth noting that the pension plan's income in a typical year comes mostly from investments. Last year, investments accounted for 71% of the plan's income, teacher contributions 12% and the balance of 17% came from the provincial government.

Gerald Bouey, Chairperson of the Teachers' Pension Plan, (right) chats with OTF's Horst Schweinbenz, former president, and Margaret Wilson, Secretary-Treasurer. Bouey explained the pension plan's interest in the social contract during a speech to the OTF Board of Governors on August 24. You'll find an excerpt from his remarks on page 5.

INSIDE THIS ISSUE

Ask Us a Question

ANNUAL STATEMENTS TIMELY

I've recently received my annual statement and package. I wonder why we receive the 1992 statements in the autumn of 1993?

D.Z., St. Catharines

To prepare your annual statement, we need information from your employer, such as your pensionable earnings for the year. Typically we receive the information about six months after the end of the calendar year. So, we received information for the 1992 statement in June 1993, processed the data and began mailing the approximately 140,000 statements in August.

You may have noticed that this year's booklet *How to Read Your Annual Statement* is shorter than past issues—8 pages less. Some of the information that had been in the booklet is now part of *Your Pension Plan Guide*, which you should have received earlier this year.

CHANGES TO THE PLAN

Who decides benefit improvements?

J.M., Aurora

Since 1992, the plan's partners, OTF and the Ontario government, have been responsible for changing benefits of the plan. The partners are also responsible for deciding what the contribution rate will be, appointing the Board of Directors and defining the role of the pension board.

Coming to terms

WHAT WE REALLY MEAN

The terms **qualifying years** and **credit** are often confused.

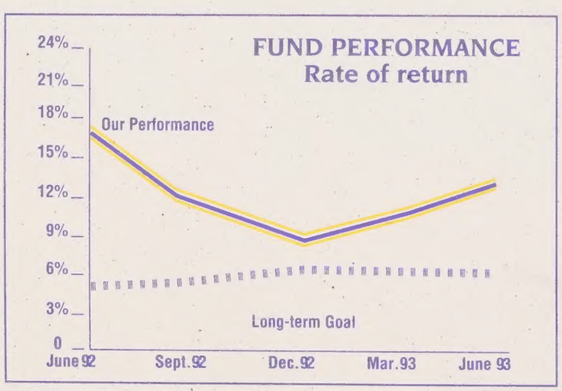
Qualifying years, previously called annualized service, represent the length of your teaching career and are used to determine your 90 factor—this is when your age plus your qualifying years equal 90. You earn one qualifying year for every school year in which you taught more than 20 days (or at least half a day prior to September 1, 1990).

Credit is the actual number of years, month and days that you have taught or contributed to the plan. We use this figure to calculate the amount of your pension.

SIX MONTH INVESTMENT REPORT

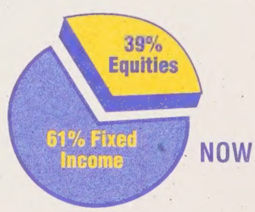
(to the end of June 1993)

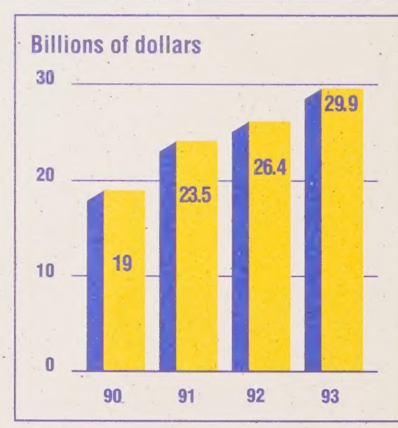
The rate of return on our investments was 13.6% for the year ending June 30. With inflation at about 1.8%, that's a real rate of return of 11.8%—well above our goal of beating inflation by 4.5%.

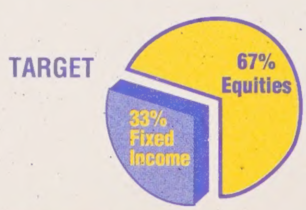


TOTAL MARKET VALUE

The market value of investments increased $3.5 billion from the previous year.







ASSET MIX

We're gradually diversifying two-thirds of our assets into Canadian and foreign stocks, private placements and real estate.

PLANNING FOR RETIREMENT

How Much is Your Pension?

For many teachers, retirement seems to be too far in the future to think about today and financial planning for retirement too complicated. Here is the first in a series of articles that will explain your benefits and help you to plan for retirement.

Do you wonder how much pension you'll receive when you retire? Estimating the amount of your annual pension is not as difficult as it may seem. Use the following table to estimate your future annual pension, in today's dollars.

INFORMATION YOU'LL NEED TO USE THE TABLE

Years of credit is the actual time you have taught or contributed to the plan. If you're not sure of the number of years, this information is listed on your 1992 Annual Statement.

Your average best-five years' salary will likely be greatest the closer you are to retirement. Depending on how far you are from retirement, you may want to use your current salary as your best-five salary.

The table assumes you will continue to teach until you retire. Remember, you're not eligible to collect an unreduced pension until you reach your 90 factor or age 65—whichever comes first. Your 90 factor is when your age plus your qualifying years equal 90.

Example

You are 48 years old and started teaching at 30. At age 60, you can expect to have your 90 factor and 30 years of credit. Your best-five years' salary is about $60,000. By using the table or the formula, you will find that you can expect to receive a pension of $36,000. If you continue to teach after you reach your 90 factor, the amount of your annual pension will increase—in this example, that's about $1,200 per year of credit. Your teachers' pension is indexed to the rate of inflation.

GETTING THE COMPLETE PICTURE

At age 60, you're eligible to begin collecting a reduced CPP pension (reduced by 6% per year for each year under 65). At 65, your teachers' pension will be reduced by an amount similar to your CPP. If you take a reduced CPP, you'll have more money early in your retirement. However, if you live into your 80s or 90s, you may receive less money overall. The other sources of income available to you are Old Age Security (current maximum of $383 per month) and any investments you make for your retirement, such as RRSPs.

WHAT YOUR ANNUAL UNREDUCED PENSION IS IN TODAY'S DOLLARS

Years of Credit	Average 'best 5' salary				
	$50,000	**$55,000**	**$60,000**	**$65,000**	**$70,000**
10	$10,000	$11,000	$12,000	$13,000	$14,000
15	$15,000	$16,500	$18,000	$19,500	$21,000
20	$20,000	$22,000	$24,000	$26,000	$28,000
25	$25,000	$27,500	$30,000	$32,500	$35,000
30	$30,000	$33,000	**$36,000**	$39,000	$42,000
35	$35,000	$38,500	$42,000	$45,500	$49,000
40	$40,000	$44,000	$48,000	$52,000	$56,000

YOUR PENSION FORMULA

You can also estimate your pension using the formula

Average 'best 5' salary	x	Years of Credit	x	Pension factor of 2%	=	Annual Pension
$60,000	x	30	x	2%	=	**$36,000**

NEXT ISSUE

Retiring early and living on a reduced pension

The Big Picture

How the social contract affects the pension plan

As part of the social contract, the provincial government will use about $1.5 billion from the Teachers' Pension Plan during the next three-and-a-half years. This money includes $325 million from the partners' bargainable share.

Part of this money will be used to help minimize the number of unpaid days teachers must take to meet the savings specified in the social contract legislation.

The government and OTF agree that the $1.5 billion will not compromise the pension plan or jeopardize members' pensions.

WHERE IS THIS MONEY COMING FROM?

Some observers have mistakenly assumed that this money is coming from a pension-plan surplus. The plan does not have a surplus, in fact there's a deficit. This deficit, or *unfunded liability*, exists because the plan's assets and contributions at current rates are not enough to pay for future benefits of existing plan members. A plan was put in place in 1990 to pay off the deficit. The Ontario government remains committed to a series of payments which should eliminate the unfunded liability by the year 2030.

PAYING DOWN $7.8 BILLION

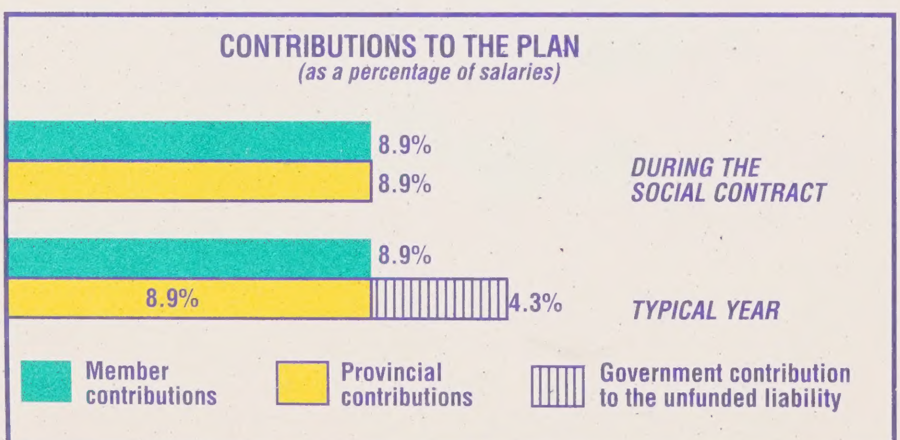
In 1990 the unfunded liability was estimated to be $7.8 billion. The unfunded liability is calculated by an independent actuary using assumptions about variables such as average salary increases, the Consumer Price Index (CPI) and investment returns—at least 50 years into the future.

These assumptions are reviewed every three years or so during an actuarial valuation. The economy is different today than when the valuation was done in 1990. Since then, the plan's investments have provided good returns at a time when inflation and salary growth have been low. For example, the assumed rate of return from the 1990 valuation is 8.5%, but during the past three-and-a-half years the plan has averaged 12.5%.

As a result of this experience, and recent changes in the economic outlook, the actuarial assumptions can be safely changed, generating $1.5 billion in actuarial gains. It is this money that is being used to help minimize the impact of the social contract on teachers' salaries. A recent valuation at January 1, 1993, confirms the $1.5 billion in actuarial gains. It's important to note that the $1.5 billion gain is in no way related to the social contract, and by itself, the social contract does little to influence the gains.

EQUAL SHARING SOONER

As part of the agreement negotiated between OTF and the government, the teachers and the government will share equal responsibility for actuarial gains and losses after the January 1, 1993 valuation. This is a few years sooner than originally agreed.



The government will continue to pay the matching contributions.

LOOKING AHEAD

Claude Lamoureux, President and CEO of the Teachers' Pension Plan Board, and an actuary by profession, would prefer to see actuarial gains used to reduce the unfunded liability. "We do not know what the future may bring, but we do know that during some years we will have actuarial losses. We need to build a cushion against such losses. Having said this, I want to reassure members their pensions are not in danger."

Social contract: Board ensures plan managed prudently

This is an excerpt from Gerald Bouey's speech to the OTF Board of Governors in August.

The Board's interest in the social contract arises, of course, from the fact that it has a fiduciary duty to ensure that the pension plan is managed in a prudent manner to deliver the benefits teachers expect when they retire.

We make conservative assumptions about the long-term outlook of the economy, about such factors as interest rates, inflation, and teachers' wage increases, and we stick close to these assumptions until the long-term trend changes.

We then ask an independent actuary to tell us how these variables might play out over the next few decades.

Using these conservative estimates, we attempt to match long-term investments with long-term liabilities. We set performance targets for investments. In this way, contributions and investment income should create the retirement incomes that teachers have been promised and expect.

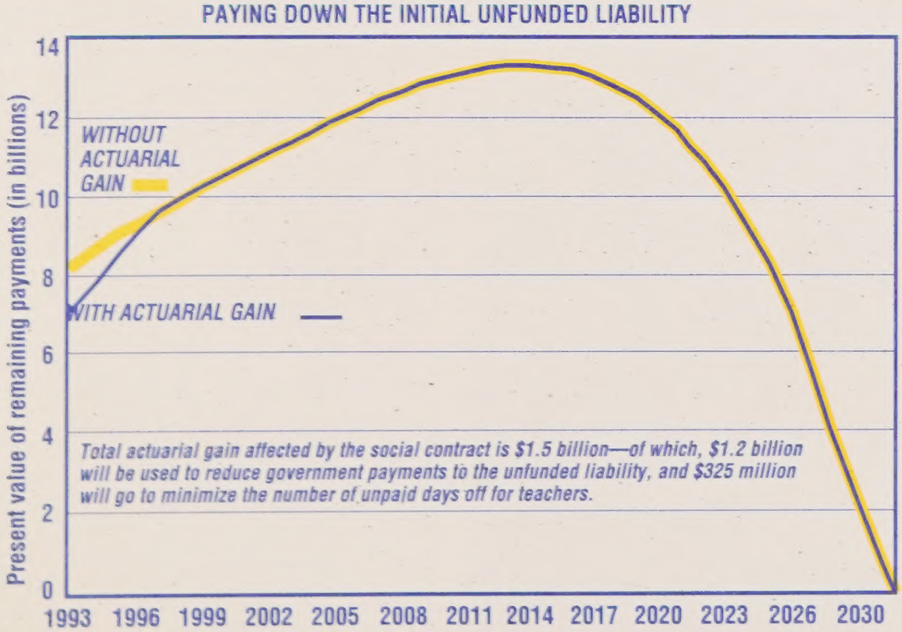
Now, I acknowledge that, given the social contract arrangements and given especially the way the economy is performing, adjustments to our long-term estimates can reasonably be made and I expect that when the Board approves the next valuation of the plan, there will be large gains.

There are of course risks to any economic forecast, including predictions of rates of return, price trends and other factors. I have been an economic observer for more than four decades, and I know how economic fortunes can change quite unexpectedly. That is why pension managers must be prudent.

ACTUARIAL ASSUMPTIONS AND ACTUAL PERFORMANCE

	Actuarial Assumptions Jan. 1, 1990	*Actual performance since 1990*	*Actuarial Assumptions Jan. 1, 1993*
Rate of return	8.50%	12.50%	8.00%
Wage inflation	5.75%	5.29%	5.00%
CPI	4.50%	3.75%	4.00%

PAYING DOWN THE INITIAL UNFUNDED LIABILITY



Since 1990, the Ontario government has paid more than $895 million towards the unfunded liability and is committed to a series of payments which should eliminate it by 2030.

REAL-LIFE RETIREMENT

Life after teaching ... what do people do? Retirement can be an opportunity to start a second career, devote more time to your interests and to travel. This is the second in a series of stories by retired teachers who have found fulfilling ways to live out their retirement.

FORMER KINDERGARTEN TEACHER LIVES SAILING DREAM

When Joan Kneisz, a kindergarten teacher from Hamilton, retired in June 1990 she embarked on a 24,000 km sailing odyssey with her husband Steve that would last two years and give them a lifetime of memories. Joan wrote to us last October to tell of their adventure aboard their 34-foot sailboat, Okkomut (Eskimo for wind at your back).

"On July 2, 1990 we headed out to sea from Sydney, Nova Scotia, in the fog and cold, and sailed around the Grand Banks of Newfoundland. After two weeks we arrived at Horta in the Azores, full of pride at making it this far. From Horta it was on to Gibraltar, 10-days away. What a thrill to see 'the rock' as you enter the Mediterranean Sea and the joy of solid ground beneath your feet."

Joan and Steve sailed on to Spain, the Balearic Islands, Sardinia, the Egadi Islands, Greece, Turkey, and Cyprus before docking in Israel.

"As winter storms approached we headed for Tel Aviv, our winter home for the next six months. What a choice that turned out to be; we arrived shortly before the outbreak of the Gulf War. We have relatives who live in Berr-sheva in the Negev Desert, so we spent the first two weeks of the war with them and the rest of the time on the boat. What a scary experience hearing sirens wail and having five minutes to get your gas mask on and into a sealed room."

Joan and Steve aboard Okkomut. They're currently sailing the waters of the Gulf of Mexico.

When the war ended they visited Egypt before sailing west to spend more time in Cyprus, Turkey and Greece. They crossed from the Island of Corfu to Yugoslavia.

"We spent two months in Yugoslavia traveling from Bar in Montenegro to Roving in Croatia. We loved Yugoslavia and are glad we saw Split and Dubrovnik before they were devastated by war. Yugoslavia was full of lovely anchorages, good food and friendly people. We loved it. As we headed south in the harbour of Sibinik in Croatia we were told things were going to get bad and to get out. The gunshots we heard in the distance convinced us they were right.

"On November 1 (1991) we left on what would be our longest ocean crossing—4,800 km and 25 days—to Grenada. During that time we saw only three ships, two birds, one pod of whales and one pod of dolphins.

"There isn't room enough to write everything we did, but some things we won't forget. Like seeing the 'green flash' (atmospheric refraction at sunrise or sunset that makes the sun appear to flash green) four times, crystal clear water, snorkeling over reefs full of brilliantly coloured fish, sailing in 35 knot trade winds, and gorgeous sunsets viewed through a Mount Gay Rum punch."

DUDLEY DOOMSAYER

> **“It's ridiculous to be buying stocks and real estate in this economy. Just keep our money in secure government debentures.”**

CONSIDER THIS:

- Data comparing returns on government bonds and treasury bills with stocks presents a compelling argument for long-term investment in stocks. A recent article in the *Wall Street Journal* reported that since 1926, government bonds and treasury bills in the U.S. have earned an average annual return of 4.3%—barely staying ahead of a 3.1% per year rate of inflation. By comparison, stocks earned 10.4% per year.
- During the past three-and-a-half years, the Teachers' Pension Plan has produced returns of 12.5%.

Tax Ruling Puts Some Purchases of Credit on Hold

We regret to inform you we have suspended processing certain purchases of credit on instructions from Revenue Canada. We must comply with their current interpretation of the *Income Tax Act* to avoid jeopardizing the future tax registration status of your pension plan.

The chart below explains which purchases we are able to continue processing and those which are suspended.

Please note we will continue to process all purchases related to retirements due to commence before February 2, 1994, in the hope they will not be affected. Completed purchases are not affected at this time.

We want to assure you we are taking all courses of action available to us, including continuing discussions with Revenue Canada, to find a way of resolving this matter in your best interests. The nature and timing of these actions may depend upon the availability of the new minister of national revenue.

For the near term, we will hold any payments received for the disputed purchases in the hope that the matter is resolved favourably. If we have to refund payments, we will do so with interest added. Undisputed purchase payments will be processed normally.

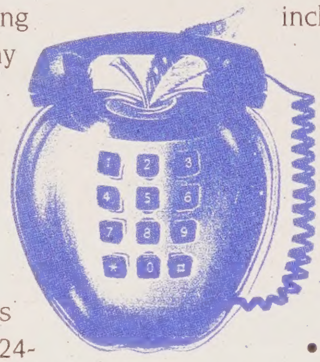
We will be adding staff to handle inquiries as this action could affect as many as 30,000 teachers across Ontario. If you need to contact us, don't be discouraged if you can't get through to us right away.

We will contact you again as soon as we have more information.

TYPE OF SERVICE	✔ OKAY ✘ ON HOLD	STIPULATION
Repayment of a refund	✔	
Pregnancy/adoption/child care, study, travel, ill health, lower salary rate, political office, jury duty	✔	if a leave approved by your employer
X/Y Leave	✔	
Designated private school	✔	
War	✔	except for post-war military service
Business and industry	✘	
Teaching outside Ontario	✘	
Transfer under a reciprocal agreement	✔	

IMPROVING OUR SERVICE

We understand that it's not always convenient for teachers to call us during office hours—that's why we provide the telephone information service called Phone-A-Memo. Recorded messages give you access to general information on all aspects of your pension plan, 24-hours a day.



Phone-A-Memo provides information of interest to active members, as well as information on the retirement process and pensioner issues. Topics include:

- repaying refunds
- buying credit
- leaving teaching
- income tax issues
- how to retire
- types of pensions
- teaching after retirement
- survivor pensions.

We've recently added a new topic to our list. You can now listen to a message explaining how divorce and remarriage can affect your pension.

With a touch-tone phone, you can call Phone-A-Memo free of charge from anywhere in Canada, anytime. If you're using a rotary phone, we're sorry but you can't access the service. If you've never used Phone-A-Memo, give it a try!

PHONE-A-MEMO

Metro Toronto
226-4200

Toll-free
1-800-387-0945

Hours of operation
Anytime

PLAN NOW, ENJOY LATER

Teachers, who retire on average at age 58, typically live on retirement income for 25 years—roughly one-third of their entire lives. So, if you're looking for some tips on retirement and financial planning, attend one of the weekend workshops offered by your federation. We'll be there to give you an overview of the pension plan. It's never too early to begin planning your retirement. For more information, contact your federation or association.

OTF PERSONAL PLANNING WORKSHOP SCHEDULE

Dec. 3-4	Mississauga
Jan. 14-15	Metro Toronto
Jan. 28-29	Kitchener
Feb. 11-12	Chatham
March 4-5	Kingston
Apr. 15-16	Sudbury
Apr. 29-30	St. Thomas
May 13-14	Elliot Lake
May 13-14	Espanola

MOVING?

DON'T FORGET TO SEND US YOUR NEW ADDRESS

All our publications are now sent to you at your home address, including information of personal interest to you, such as your annual statement of benefits. If we don't know where you are, we can't reach you!

NAME ______________________________

SIN ______________________________

ADDRESS ______________________________

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EXCHANGE

is a publication prepared by the Ontario Teachers' Pension Plan Board. We welcome your comments and suggestions. Feel free to call the editor, John Cappelletti, at (416) 730-5351 or write to:

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